

## AN ANALYTICAL STUDY OF WORKING CAPITAL MANAGEMENT OF PURVANCHAL URBAN CO-OPERATIVE BANK IN GHAZIPUR DISTRICT

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### **ABSTRACT**

*The objective of this article is to study the performance of Purvanchal Urban Co-operative bank on the basis of ratio analysis. The basic parameter to that determines the success of any organization is how effectively they utilize their financial resources. Ratio analysis is the best way to determine the performance of any banking institution, which further generates return for stakeholders. In banks there should be proper management of resources, if not properly managed will lead to reduction in benefits through short term investments and over burden of unnecessary expenses. A balanced capital management is said when there is not neither excessive allocation of funds nor too low allocation of funds, so that banks may miss the opportunity of profitable investments as well as short term liquidity crisis. Profitability and liquidity are the two basic objectives of any bank, which can only be obtained by adequate management of working capital. On the other hand, every bank has to follow fixed norms of central banks in order to safeguard the interest of common people as well as nation. Hence from the above prospective the study is important.*

**KEYWORDS:** Co-operative bank, capital management, Profitability, liquidity, Ratio analysis, funds

### **INTRODUCTION**

#### **URBAN CO-OPERATIVE BANKS**

The term Urban Co-operative bank is not properly defined in any Act, they are consider as a financial institutions deals in deposits and loans in semi urban and semi urban areas. After 1996, co-operative banks were permitted to lend money to agricultural and allied sector also. The working field of co-operatives are now widen to a large extend with increased population coverage.

#### **HISTORY OF UCB IN INDIA**

Since early 17<sup>th</sup> century, there was successful development of co-operative societies in UK and Germany, which further spread to other countries also. As influenced by the success these co-operative in UK and Germany, the first mutual aid co-operative society was founded in the erstwhile princely state of Baroda, named Anyonya Sahakari Mandal in 1889 under the guidance of Vithal Laxman. As per name suggests, its main function was all voluntary association for welfare of common and needy people. In 1904, it provided legal status. In its formative phases it came as organized

community to meet the needs of their members. It generated the habit of thrift by salary earners as well as generated habit of savings by both lower and middle class people. And till date UCBs have been mobilizing savings from middle and lower income people and provide credit facilities to member mostly belong to weaker section.

### OBJECTIVE OF STUDY

The following are the objective of this study.

- To study the beginning of Urban C-operative Banks.
- To study the Liquidity position of Purvanchal Urban Co-operative Bank.
- To provide suitable findings, suggestions and conclusion for the bank.

### METHODOLOGY

In this study secondary data has been used. The secondary data is collected from the balance sheet published by bank, annual audit and report publish by Reserve Bank of India.

### PERIOD OF STUDY

The time period selected for study is 2012-13 to 2017-18.

### LIMITATIONS OF STUDY

The data used is secondary, which may be sometime biased in nature. The period of study is only for five years, which may sometime do not provide suitable result. Another major limitation was with availability of data, as UCBs of Uttar Pradesh does not have proper data available.

### *Current Ratio*

Current Ratio is the important ratio which determines the liquidity position of any organization as well as analyzes the short term financial position of organization. Current ratio is the relationship between current assets and current liabilities.

**TABLE 1**

Year	Current Assets	Current Liabilities	Ratio
2013-14	3725.71	2066.51	1.8028
2014-15	3779.37	2545.07	1.4849
2015-16	3962.30	2736.36	1.4480
2016-17	4679.84	2886.52	1.6212
2017-18	4892.89	3237.40	1.5113

*Source: Annual Report*

The table above determines the current ratio of Purvanchal Urban Co-operative Bank during the study period of five year 2013-14 to 2017-18. The current ratio of PUCB shows a fluctuating increase and decrease of current ratio during the study period.

### *Quick Ratio or Liquid Ratio*

It is also known as Acid-test ratio. Liquid ratio affects creditability and credit rating of any firm. Liquid Ratio is calculated by dividing total liquid assets to total current liabilities. Liquid ratio helps to determine the financial stability of any firm. Higher the ratio, the more the firm will be easily encounter its current as well as liquid liabilities.

**TABLE 2**

Year	Liquid Asset	Current Liabilities	Ratio
2013-14	2116.78	2066.51	1.0243
2014-15	2215.54	2545.07	0.8705
2015-16	2356.32	2736.36	0.8611
2016-17	2540.21	2886.52	0.8800
2017-18	2850.63	3237.40	0.8805

Source: Annual Report

From the above table, it is inferred that there is a constant increase in liquid assets of PUCB during the study period, which also leads to a constant increase in quick ratio after a decrease from the year 2014-15.

### ***Absolute Liquid Ratio***

The standard liquid ratio should be 1:2 i.e. 0.50. Absolute liquid assets account cash in hand, cash at bank, and marketable securities and temporary investments.

**TABLE 3**

Year	Absolute Liquid Assets	Current Liabilities	Ratio
2013-14	1088.72	2066.51	0.5268
2014-15	1095.12	2545.07	0.4302
2015-16	1178.41	2736.36	0.4306
2016-17	1206.75	2886.52	0.4181
2017-18	1411.36	3237.40	0.4360

Source: Annual Report

As from above table indicates that there is an increase in Absolute liquid assets during the study period, where as the Absolute liquid ratio shows the gradual increase from the period 2014-15 to 2017-18, after a decrease from the 2013-14.

### ***Current Assets to Net worth Ratio***

This ratio indicates the percentage of proprietor's fund investment in current assets. Higher the proportion of current assets to proprietor's fund to fixed assets to proprietor's fund indicates the strength of business.

**TABLE 4**

Year	Current Assets	Net Worth	Ratio
2013-14	3725.71	499.63	7.46
2014-15	3779.37	445.99	8.47
2015-16	3962.30	471.95	8.39
2016-17	4679.84	477.87	9.79
2017-18	4892.89	493.47	9.92

Source: Annual Report

The above table calculates the current assets to net worth ratio of PUCB during the study period of 2013-14 to 2017-18. The ratio shows steady increase as both the current assets and net worth of bank increases during the study period.

### ***Current Liabilities to Net worth Ratio***

The ideal ratio should be 1:3. It indicates the relative contribution of short term creditors and owners to capital of firm. If the ratio is higher than it will be difficult to obtain long term fund by business.

**TABLE 5**

Year	Current Liabilities	Net Worth	Ratio
2013-14	2066.51	499.63	4.14
2014-15	2545.07	445.99	5.71
2015-16	2736.36	471.95	5.80
2016-17	2886.52	477.87	6.04
2017-18	3237.40	493.47	6.56

Source: Annual Report

The above table indicates that there is an increasing trend in Current Liabilities to Net Worth ratio during the study period. Since there is an increasing trend in both current liabilities as well as net worth.

### FINDINGS

1. Current ratio of PUCB shows ups and down during the study period with initial year decline.
2. The liquid ratio of bank decline initially but afterward becomes stable. Since the bank was able to maintain its standard liquid ratio.
3. The bank unable to maintain the standard Absolute liquid asset except in 2013-14.
4. The current assets to net worth ratio increased during the study period.
5. The current liabilities to net worth also increased every year during the study period.

### SUGGESTIONS AND CONCLUSIONS

- From above we found that bank is unable to maintain its standard current ratio i.e. 2:1, hence bank has to more focus on all available sources of current assets.
- It is also suggested that the bank has to also focus on improving its working capital through increasing its investments in short term activities.
- Hence, bank has to maintain adequate working capital for its day to day operations made in cash only.
- Bank has to focus on improving its trust in its consumers, so as more deposits can be available for bank, there will be some improvement in net worth of bank.

From the above study we found that Purvanchal Urban Co-operative Bank was unable to maintain its current ratios which reveal that the bank has minimum working capital to meet its all liquid activities. And bank also has to make affords to improve its solvency position.

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